

## Report of the Auditor-General to the Gauteng Provincial Legislature and Council on the Midvaal Local Municipality

### Report on the financial statements

#### Introduction

1. I have audited the financial statements of the Midvaal Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

#### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Midvaal Local Municipality as at 30 June 2016, and its financial performance and cash flows for the year then ended in accordance with SA standards of GRAP and the requirements of the MFMA and DORA.

## Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Significant uncertainties

8. As disclosed in note 43 to the financial statements, the municipality is the defendant in various court cases. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

## Restatement of corresponding figures

9. As disclosed in note 45 and 46 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors discovered in the financial statements of the municipality during the year ended 30 June 2016.

## Material losses

10. As disclosed in note 56 to the financial statements, material losses amounting to R25 220 919 (2014-15: R21 417 623) were incurred as a result of electricity distribution losses which represent 11,7% (2014-15: 11,5%) of total electricity purchased. The total technical losses of electricity amounted to R10 811 478 (2014-15: R3 716 685). Non-technical losses amounted to R14 409 441 (2014-15: R17 700 938) of the total electricity purchased.

## Material impairments

11. As disclosed in note 3 to the financial statements, the consumer debtors balance has been significantly impaired. The allowance for impairment of consumer debtors amounts to R113 156 964 (2014-15: R89 464 518) which represents 52% (2014-15: 45%) of the total consumer debtors. The contribution to the provision for debt impairment for the current year was R48 124 495.

## Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Unaudited disclosure notes

13. In terms of section 125(2) (e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.



## **Report on other legal and regulatory requirements**

14. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to the reported performance information against predetermined objectives of selected development priorities presented in the annual performance report, compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016:
- Development priority 2: Safety and environment on pages xx to xx
  - Development priority 3: Social and community development on pages xx to xx
  - Development priority 6: Physical infrastructure and energy on pages xx to xx
  - Development priority 7: Services and customer care on pages xx to xx
16. I evaluated the usefulness of the reported performance information to determine whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPi).
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development priorities.

## **Additional matter**

19. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected development priorities, I draw attention to the following matter:

## **Achievement of planned targets**

20. Refer to the annual performance report on page xx to xx for information on the achievement of planned targets for the year.

### Compliance with legislation

21. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

### Internal control

22. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

*Auditor - General*

Johannesburg

30 November 2016



AUDITOR - GENERAL  
SOUTH AFRICA

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